

PERAC AUDIT REPORT



Southbridge Retirement System

JAN. 1, 2012 - DEC. 31, 2014



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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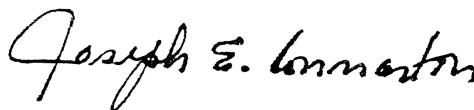
February 12, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Southbridge Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception noted in the finding presented in this report.

In closing, I acknowledge the work of examiner Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Refunds:

An examination of refunds indicated that interest was incorrect in cases where a member transferred in from another system and was then eligible for a refund with 3% interest. Pursuant to G.L. c. 32, section 11(1), "the rate of regular interest for purposes of calculating accumulated total deductions shall be 3 per cent". When the money from a second system is transferred to Southbridge, interest is included at the regular rate. This interest is not adjusted to 3% when the refund is issued.

Recommendation: In these cases the member's Annuity Savings Fund history should be requested from the other system so that 3% interest can be credited for the entire career.

Board Response:

The Annuity Savings Fund history will be requested when the Board initiates a transfer from another system.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding this finding.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2014	2013	2012
Net Assets Available For Benefits:			
Cash	\$201,042	\$270,316	\$2,127,746
PRIT Cash Fund	100,030	169,104	300,042
PRIT Core Fund	39,649,366	35,614,155	28,427,961
Prepaid Expenses	0	0	4,750
Accounts Receivable	3,237	2,368	2,813
Accounts Payable	0	(1,194)	(1,159)
Total	<u>\$39,953,675</u>	<u>\$36,054,749</u>	<u>\$30,862,154</u>
Fund Balances:			
Annuity Savings Fund	\$13,085,010	\$12,596,245	\$11,944,812
Annuity Reserve Fund	2,762,112	2,635,481	2,662,309
Pension Fund	1,728,878	1,583,624	1,124,496
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	<u>22,377,675</u>	<u>19,239,399</u>	<u>15,130,538</u>
Total	<u>\$39,953,675</u>	<u>\$36,054,749</u>	<u>\$30,862,154</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$11,295,497	\$2,611,660	\$1,030,621	\$0	\$11,976,292	\$26,914,070
Receipts	1,298,781	81,030	3,027,666	280,547	3,143,217	7,831,241
Interfund Transfers	(430,105)	419,076	0	0	11,029	(0)
Disbursements	(219,361)	(449,457)	(2,933,791)	(280,547)	0	(3,883,156)
Ending Balance (2012)	11,944,812	2,662,309	1,124,496	0	15,130,538	30,862,154
Receipts	1,585,601	78,644	3,570,453	330,011	4,108,834	9,673,542
Interfund Transfers	(369,935)	369,907	0	0	27	(0)
Disbursements	(564,233)	(475,380)	(3,111,324)	(330,011)	0	(4,480,948)
Ending Balance (2013)	12,596,245	2,635,481	1,583,624	0	19,239,399	36,054,749
Receipts	1,525,728	79,346	3,475,220	342,508	3,138,570	8,561,373
Interfund Transfers	(552,154)	552,448	0	0	(294)	(0)
Disbursements	(484,809)	(505,163)	(3,329,966)	(342,508)	0	(4,662,447)
Ending Balance (2014)	<u>\$13,085,010</u>	<u>\$2,762,112</u>	<u>\$1,728,878</u>	<u>\$0</u>	<u>\$22,377,675</u>	<u>\$39,953,675</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Members Deductions	\$1,363,950	\$1,335,485	\$1,244,375
Transfers from Other Systems	115,307	231,485	20,443
Member Make Up Payments and Re-deposits	24,804	2,706	13,134
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	21,668	15,925	20,829
Sub Total	<u>1,525,728</u>	<u>1,585,601</u>	<u>1,298,781</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>79,346</u>	<u>78,644</u>	<u>81,030</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	33,174	33,491	33,123
Received from Commonwealth for COLA and Survivor Benefits	94,506	71,962	74,543
Pension Fund Appropriation	3,340,040	3,465,000	2,920,000
Settlement of Workers' Compensation Claims	7,500	0	0
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,475,220</u>	<u>3,570,453</u>	<u>3,027,666</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>342,508</u>	<u>330,011</u>	<u>280,547</u>
Pension Reserve Fund:			
Pension Reserve Appropriation	677,722	0	0
Interest Not Refunded	130	279	647
Miscellaneous Income	47	0	14
Excess Investment Income	<u>2,460,671</u>	<u>4,108,555</u>	<u>3,142,557</u>
Sub Total	<u>3,138,570</u>	<u>4,108,834</u>	<u>3,143,217</u>
Total Receipts	<u>\$8,561,373</u>	<u>\$9,673,542</u>	<u>\$7,831,241</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	\$242,719	\$228,338	\$191,919
Transfers to Other Systems	<u>242,090</u>	<u>335,895</u>	<u>27,443</u>
Sub Total	<u>484,809</u>	<u>564,233</u>	<u>219,361</u>
Annuity Reserve Fund:			
Annuities Paid	505,163	475,380	447,180
Option B Refunds	<u>0</u>	<u>0</u>	<u>2,276</u>
Sub Total	<u>505,163</u>	<u>475,380</u>	<u>449,457</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	2,321,933	2,229,552	2,132,700
Survivorship Payments	89,678	79,699	76,520
Ordinary Disability Payments	22,189	13,459	13,099
Accidental Disability Payments	400,132	407,534	394,305
Accidental Death Payments	120,060	117,016	113,953
Section 101 Benefits	69,188	73,080	59,928
3 (8) (c) Reimbursements to Other Systems	<u>306,788</u>	<u>190,984</u>	<u>143,287</u>
Sub Total	<u>3,329,966</u>	<u>3,111,324</u>	<u>2,933,791</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	14,750
Salaries	73,527	74,272	58,616
Legal Expenses	1,427	2,028	7,462
Medical Expenses	160	64	110
Travel Expenses	2,309	2,171	1,629
Administrative Expenses	14,965	21,465	15,990
Professional Services	66	0	0
Accounting Services	5,500	5,500	5,500
Education and Training	1,480	1,644	540
Furniture and Equipment	1,816	0	0
Management Fees	201,548	175,852	144,082
Consultant Fees	0	4,774	4,635
Service Contracts	20,206	22,924	22,919
Fiduciary Insurance	<u>4,503</u>	<u>4,316</u>	<u>4,312</u>
Sub Total	<u>342,508</u>	<u>330,011</u>	<u>280,547</u>
Total Disbursements	<u>\$4,662,447</u>	<u>\$4,480,948</u>	<u>\$3,883,156</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Investment Income Received From:			
Cash	\$988	\$3,679	\$3,629
Pooled or Mutual Funds	<u>1,064,071</u>	<u>912,700</u>	<u>860,988</u>
Total Investment Income	<u>1,065,059</u>	<u>916,380</u>	<u>864,616</u>
Plus:			
Realized Gains	1,682,306	1,476,692	696,509
Unrealized Gains	<u>2,412,140</u>	<u>3,790,249</u>	<u>3,637,123</u>
Sub Total	<u>4,094,446</u>	<u>5,266,940</u>	<u>4,333,633</u>
Less:			
Unrealized Loss	<u>(2,255,311)</u>	<u>(1,650,185)</u>	<u>(1,673,286)</u>
Net Investment Income	<u>2,904,194</u>	<u>4,533,135</u>	<u>3,524,963</u>
Income Required:			
Annuity Savings Fund	21,668	15,925	20,829
Annuity Reserve Fund	79,346	78,644	81,030
Expense Fund	<u>342,508</u>	<u>330,011</u>	<u>280,547</u>
Total Income Required	<u>443,522</u>	<u>424,580</u>	<u>382,406</u>
Net Investment Income	<u>2,904,194</u>	<u>4,533,135</u>	<u>3,524,963</u>
Less: Total Income Required	<u>443,522</u>	<u>424,580</u>	<u>382,406</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$2,460,671</u>	<u>\$4,108,555</u>	<u>\$3,142,557</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$201,042	0.5%
PRIT Cash Fund	100,030	0.3%
PRIT Core Fund	<u>39,649,366</u>	<u>99.2%</u>
Grand Total	<u>\$39,950,438</u>	<u>100.0%</u>

For the year ending December 31, 2014, the rate of return for the investments of the Southbridge Retirement System was 8.17%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Southbridge Retirement System averaged 9.35%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Southbridge Retirement System was 8.17%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

In a letter dated September 3, 2008, the Southbridge Retirement System was notified that the Board must transfer all assets to PRIT pursuant to Chapter 68 of the Acts of 2007. This transfer, with the exception of one real estate investment, took place in 2009. The remaining real estate investment was liquidated and the residual funds transferred in 2010. Any prior investment regulations have been effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Southbridge Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Southbridge Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership:

Any individual permanently employed 20 or more hours per week in any member unit of the Southbridge Retirement System and who is paid a salary of at least \$5,000 per year shall be required to become a member of the System. Elected officials who are paid a salary of at least \$5,000 per year may elect to become members of the System within 90 days of assuming office. *Any individual who established membership prior to July 1, 2010 will continue to be a member in service thereafter irrespective of whether the member's hours fall below 20 per week.* No other individual shall be eligible for membership in the System.

In all cases involving part-time, stipend, provisional, temporary provisional, seasonal, or intermittent employment or service of any employee in any governmental unit [prior to membership], said [member] shall be entitled to buy back said service, provided that (1) said [member] was later appointed to full-time service, (2) said [member] worked at least 20 hours per week, (3) said [member] pays back into the system an amount equal to that which would have been deducted from wages plus interest. The Southbridge Retirement Board shall determine how much service in any calendar year is equivalent to a year of service.

Creditable Service:

Creditable service is based on a 12 month year except in the case of contract employees of the public school systems. Any member working less than 12 months per year will have their creditable service pro-rated accordingly. (Number of months on unpaid leave will be deducted from creditable service.)

If a member is employed by the public schools and the member's contract only requires the member to work 10 months a year, provided the member works the full 10 months, they will be credited with one full year of service.

A member who is employed in a part-time capacity will receive full-time credit for the member's part-time service if, and only if, the member remains in a part-time capacity for the member's entire career.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

If a member has rendered membership service in both a part-time and full-time capacity, the part-time service will be prorated based on the following Creditable Service policy:

Creditable Service will be based on the average hours worked per week per work year. The following schedule will apply:

20-24 average hours per week.....	50% creditable service
25-28 average hours per week.....	60% creditable service
29-34 average hours per week.....	75% creditable service
35 and over average hours per week.....	100% creditable service

Purchase of prior Eligible Service rendered by a current system member who was not a member of the system at the time of the eligible service will be allowed to buy back creditable service on the following schedule:

20-24 average hours per week.....	50% creditable service
25-28 average hours per week.....	60% creditable service
29-34 average hours per week.....	75% creditable service
35 and over average hours per week.....	100% creditable service

FEBRUARY 16, 2011

ELECTION RULES:

ELECTION TIMETABLE:

- An election for the elected members of the Southbridge Retirement Board must take place at the end of each board member's three-year term or upon a vacancy caused by resignation or death of an elected member. The notice of election shall be posted 90 days prior to the election
- If the retirement board misses the 90-day notice period, the board may write to PERAC for approval of a supplementary regulation authorizing the use of a reduced notice period. Upon review of all the facts, PERAC may approve a supplementary regulation, which authorizes a notice period less than 90 days but greater than 45 days. If a term expires in less than 45 days, the elected member shall continue to serve beyond the time of his/her term until a new member is elected

POSTING OF THE ELECTION NOTICE

- The Southbridge Retirement System shall mail a notice to each member (active, retired, and inactive)
- The election notice must include the date, time and manner of the election, and shall describe nomination and election procedures

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

APPOINTMENT OF ELECTION OFFICER

- The Southbridge Retirement Board shall appoint the Executive Secretary of the retirement board as election officer to coordinate all election activity. Any person who is aggrieved by a determination made by the election officer may appeal to the retirement board

ELIGIBILITY TO SERVE ON RETIREMENT BOARD

- Any active or retired member is eligible to serve as the elected member of the retirement system. Individuals receiving non-contributory pensions (because their allowance is paid by the community and not the retirement system) or individuals receiving survivor benefits are NOT eligible to run for the position

NOMINATIONS

- Any active or retired member may qualify as a candidate by filing with the retirement board nomination papers containing the signatures and addresses of at least twenty (20) members of the retirement system. The retirement board shall verify that those signing the nomination papers are in fact members of the retirement system. Nomination papers must be signed by the candidate
- Any person submitting less than the required number of qualified signatures, shall not be considered a candidate and shall be notified of their failure to qualify. If all candidates fail to meet the nomination requirements prior to the deadline, the nomination period shall remain open until the first Monday following the date the first candidate qualifies
- Nomination papers shall be made available 90 days prior to the election unless a supplementary regulation is approved by PERAC. Completed nomination papers must be submitted no later than 45 days prior to the election

WHEN ONLY ONE CANDIDATE FILES NOMINATION PAPERS

- When only one qualified candidate files nomination papers, said individual shall be declared the winner and an election need not be held. Notice to PERAC of the new or re-elected member must be provided

ELECTION BALLOT

- If more than one candidate qualifies, an election ballot must be prepared. The order of the names on the ballot must be determined by a random drawing. The random drawing shall be done by the election officer and will be accomplished by placing the names of qualified candidates into a container and drawing one at a time. The incumbent (if there is one) has the right to be identified as such on the ballot

CONDUCTING THE ELECTION

- The Southbridge Retirement Board shall conduct their elections by mail; all active, inactive and retired members shall be mailed a ballot. In addition to the ballot, the

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

election package shall include a return envelope, which contains a space where the voter must sign his or her name to indicate that he/she is a qualified voter. The return envelope will also contain a space for the return address in the upper left-hand corner. The Southbridge Retirement System shall not provide postage on the return envelope.

- To ensure that voters cannot be identified, the Southbridge Retirement Board shall include a separate inside envelope in which the ballot will be placed. The sealed ballot envelope (which contains no signature) is then placed inside the outer envelope, which the member must sign. Upon receipt of the ballot by the election officer, the outer envelope is used to verify the voter; the outer envelopes will then be sorted between active, retired, and inactive members and then placed in alphabetical order. On election day, the outer envelope will be opened and the sealed ballot envelope will be placed in a ballot box

COUNTING OF BALLOTS

- Only the election officer (Executive Secretary) or his/her designee shall count ballots. The retirement board shall notify all candidates in advance of the time and place of the ballot tabulation. The candidates or their representatives may be present and may observe the counting process

DISQUALIFIED BALLOTS

- Ballots are considered disqualified if:
- Ballot envelope contains no name
- Ballot is not returned in the envelope provided
- Ballot cannot be verified as being submitted by a member in service or a retiree
- Ballot of member or retiree voting more than once
- Ballot is received after the deadline
- Ballot contains identifying data of the voter
- Ballot contains more than one "X"
- Ballot has been defaced such that the voter's choice of candidate is ambiguous

ELECTION RESULTS

- The retirement board shall notify all candidates of the election results in writing within 7 days after the election. Written notice should be provided even if the candidates were present when the election results were determined

APPEAL OF ELECTION RESULTS

- Any candidate appealing the election results or any aspect of the election proceedings shall file an appeal with the retirement board within 7 working days

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- The Election Officer shall preserve all ballots received by the retirement board for 90 days following the determination of the election results. The Election Officer shall then destroy ballots

Travel Regulations:

October 2, 2012

The Southbridge Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Southbridge>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Karen Harnois

Appointed Member: Melinda Ernst-Fournier, Chairperson Until a successor is appointed

Elected Member: Julie A. Pena Term Expires: 07/18/17

Elected Member: James Philbrook Term Expires: 12/31/18

Appointed Member: Bonnie B. Losavio Term Expires: 05/30/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2014.

The actuarial liability for active members was	\$33,865,651
The actuarial liability for vested terminated members was	543,262
The actuarial liability for non-vested terminated members was	375,224
The actuarial liability for retired members was	<u>32,720,971</u>
The total actuarial liability was	\$67,505,108
System assets as of that date were (actuarial value)	<u>34,326,073</u>
The unfunded actuarial liability was	<u>\$33,179,035</u>
 The ratio of system's assets to total actuarial liability was	 50.8%
As of that date the total covered employee payroll was	\$14,953,830

The normal cost for employees on that date was 8.8% of payroll

The normal cost for the employer was 5.0% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum
 Rate of Salary Increase: Varies by service and group

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	\$34,326,073	\$67,505,108	\$33,179,035	50.8%	\$14,953,830	221.9%
1/1/2012	\$29,605,477	\$60,261,625	\$30,656,148	49.1%	\$13,145,717	233.2%
1/1/2010	\$25,721,592	\$54,620,577	\$28,898,985	47.1%	\$12,646,064	228.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	4	8	6	6	6	10	3	6	8	10
Ordinary Disability	0	0	0	1	0	0	0	0	1	0
Accidental Disability	0	0	0	0	0	0	1	0	0	0
Total Retirements	4	8	6	7	6	10	4	6	9	10
 Total Retirees, Beneficiaries and Survivors	150	154	170	165	172	178	167	168	178	180
 Total Active Members	301	323	413	361	340	371	346	355	380	386
Pension Payments										
Superannuation	\$1,286,763	\$1,395,505	\$1,525,017	\$1,700,689	\$1,778,150	\$1,973,371	\$2,012,467	\$2,132,700	\$2,229,552	\$2,321,933
Survivor/Beneficiary Payments	83,927	62,990	60,190	63,232	73,083	74,007	79,683	76,520	79,699	89,678
Ordinary Disability	0	0	0	9,934	12,019	12,379	12,739	13,099	13,459	22,189
Accidental Disability	554,546	500,496	444,382	445,310	414,184	401,009	388,905	394,305	407,534	400,132
Other	<u>84,627</u>	<u>258,634</u>	<u>229,247</u>	<u>270,520</u>	<u>280,896</u>	<u>301,467</u>	<u>315,574</u>	<u>317,168</u>	<u>381,080</u>	<u>496,035</u>
Total Payments for Year	<u>\$2,009,863</u>	<u>\$2,217,625</u>	<u>\$2,258,836</u>	<u>\$2,489,685</u>	<u>\$2,558,332</u>	<u>\$2,762,233</u>	<u>\$2,809,368</u>	<u>\$2,933,791</u>	<u>\$3,111,324</u>	<u>\$3,329,966</u>

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